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Arab Political Economy and the European Union's Mediterranean Policy: What Prospects for Development?

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The Euro–Mediterranean Partnership Initiative (EMPI) or, as it is also called, the 'Euro–Med' approach pursued by the European Union (EU) since 1995 aims at promoting the overarching policy goals of 'peace, stability, and prosperity' through bilateral partnership agreements, as has been laid down in the so-called Barcelona Declaration.[1] Although these policies, as a new development on the border of international relations and international political economy, have already triggered a relatively large body of scholarly literature, most contributions either remain on a descriptive level ('what *is* the Euro–Mediterranean Partnership Initiative?') or consist of consultancy reports and EU internal evaluations, which focus on numerically measurable economic indicators in order to assess the success or failure of the policies implemented (e.g. 'what amount of resources has been spent on which projects for the benefit of which target groups?'). The approach pursued here differs insofar as the EU's EMPI is regarded as an intervening variable, entering the partner states' path of development rather than being the basis of analysis. In consequence, the answer to the question of chances and risks inherent in the new policy, as well as an assessment of future prospects for achieving the EU's goals as set forth in Barcelona, will have to take into consideration the economic as well as the specific sociopolitical situation of the Arab partner countries as a necessary basis for analysis.[2]

Therefore, this article has a bifurcate structure with its first part analysing key features of the Arab economies as they have evolved throughout the past decades, before the essential sociopolitical characteristics of the Arab systems as reinforced by their economic orders are carved out. To conclude this assessment of the Arab partner states, the impact of liberal economic policy reforms, which have been adopted by all Arab states since the late 1980s, on the states, their societies and state–society relations, are then examined. Taking this

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as an analytical background, the second part of the article turns to the EMPI, its main goals and modes of implementation. As will be seen, two fundamental policy dilemmas become clear when comparing the EMPI to the findings characterising the Arab partner states, on the Arab as well as on the European side. These results suggest, first, that the policies implemented until today are inadequate to achieve the declared policy aims and, second, that the EU's Mediterranean approach suffers from inherent contradictions between these goals. Therefore, as is concluded, the EU is in need of thoroughly revising its strategy towards the Arab partner states. In spite of the fact that prospects for achieving the self-set goals of the EU are considered rather dim here, some reflections on possible policy recommendations practicable for both the EU and the Arab governments provide a conclusion that aims at spurring further debate in this field, by scholars as well as by decision makers.

The socioeconomic environment in the Arab partner states

Economic structures

The Arab states participating in the Barcelona process differ enormously in terms of population, surface, GDP and per-capita GDP, inflation rate, external debt burden and net private capital inflows, as well as official transfers. Moreover, the relative importance of economic sectors varies widely from one country to the next, indicating differences in the economic structures of the states. Net private capital inflows reached over US$1.4b in Egypt in 1996, with over US$700m of foreign direct investments (FDI), whereas Jordan suffered from a net private capital outflow of more than US$100m, realising FDI worth only US$16m during the same year.[3] Size and economic role of the private sectors vary as well as the extent to which the paths of macroeconomic stabilisation and, thereafter, liberalisation have been pursued successfully by the Arab governments.

Yet, in spite of the obvious heterogeneity of the economies, it is possible to outline briefly some key elements which all political-economic systems of the Arab partners have in common:

1. Although the Arab States participating in the Barcelona process—with the exception maybe of Algeria—have only limited amounts of natural resources to exploit,[4] since the early 1970s they have been part of a regional economic system that has been labelled 'petrolism'.[5] In essence, what is meant by this term is the regional circulation of oil revenues realised mainly by the Gulf states, but significant shares of which have entered the non-oil economies through various channels. Since the largest part of these revenues can economically be defined as international rents,[6] the oil-rich economies are frequently called 'rentier systems'. While a high level of regional migration (from the non-oil states to the oil-rich Persian Gulf where wages and salaries were higher than in the countries of origin of the migrant workers) caused an influx of private remittances, the lion's share of the circulating resources was made up of official budgetary transfers from the Gulf states to those non-oil states which today are becoming partners of the EU. The Mediterranean Arab

states (including Jordan as a participant in the Barcelona process) were thus transformed into 'rentier systems of second order' or 'semi-rentiers'.[7] It is important here to note that it is not the private sector actors but the governments that have been the main beneficiaries of the regional circulation of oil rents.

2. The Mediterranean Arab states have been able to profit from the bipolar international system until the end of the Cold War.[8] High levels of financial, economic, technical and military aid have also been accruing directly to the administrations. As strategic transfers to 'client states', these resources were granted more often than not unconditionally or at least free from any effective control by donors concerning spending. Thus general budget support and development aid can, in the bipolar international context, mostly be viewed as an equivalent to economic rents. It shall be referred to as 'political rents', since its flow largely depends on the external political behaviour (which takes the place of 'production' costs) of the recipient governments.[9]
3. As a consequence of these first two points, governments grew to be the most powerful national economic actors, with the biggest resources to allocate and the potential to determine the course of the economies.[10] Throughout the past decades, the Arab partner governments have been distributing externally generated resources to their societies, while the domestic tax base has remained narrow. The enormous influx of external resources during the 1970s and much of the 1980s led to an over-expansion of state bureaucracies and the state becoming the largest employer by far in all the countries under consideration.[11] Subsidies on food and basic consumer goods, free educational and health systems were thus not the privilege of the oil-rich states of the Gulf peninsula, but were also available for the states participating in the regional system as semi-rentiers, possessing a national industrial base and—to some extent—taxation, but nevertheless being dependent on economic and/or political rents for survival.
4. The tendencies outlined above hold true regardless of the nature of the respective political system: a number of governments, such as those of Algeria, Egypt or Syria, pursued a 'socialist', or rather populist, path of development and employed strategies of import-substituting industrialisation at least for some period in their history. In these cases state ideology reinforced the impact of 'petrolism'; but even the conservative, pro-Western monarchies such as Jordan display similar structures. As Bradley Glasser put it, 'the region's liberal monarchies developed public sectors as large as those of the "socialist" countries.... In short, "intense statism" characterised regimes espousing both "Arab socialism" and "laissez-faire" monarchism'.[12]

Private business has been dependent on the benevolence of state institutions to operate successfully in tightly controlled markets. While, in Anne Krueger's words, 'one can conceive of a continuum between a system of no restrictions and a perfectly restricted system [by state intervention]', there is no doubt that all the Mediterranean Arab economies are on the far side of the 'point along the continuum beyond which the market fails to perform its allocative function to any satisfactory degree'.[13] The political consequence of the state being the most powerful economic actor is obvious: while being able to allow large-scale tax evasion, yet to control private sectors politically by means of economic regulations, the regimes were able to secure political rule firmly within the established elites and to preclude any serious challenges to regime survival. In such systems, laws are applied inequitably, competition is restricted, monopolies or *de-facto* monopolies are granted like 'gifts' to a loyal clientele through direct or indirect state intervention and, as a result, the entire market mechanism is largely ruled out. Thus, there is a structural contradiction between the Arab rent-dependent economies and the most fundamental preconditions of market systems.

Sociopolitical norms reinforcing market distortions

The economic structures outlined above coincide with several sociopolitical consequences.[14] These, in turn, have had repercussions on the Arab economies and their performance. The influx of economic and political rents favoured the shaping of strong states positioned relatively autonomously above domestic societies. While the ruling elites managed to monopolise the acquisition of external resources, they were not forced to re-invest them into production. Rather, domestic resource allocation is politically motivated and ranges from a far-reaching *de-facto* alimentation of the population (through subsidising basic consumer goods and public services) to the systematic granting of privileges to strategically important social groups and segments. This, in turn, encourages domestically predominant patterns of social behaviour and interaction which resemble the states' behaviour in an international context. The prevalence of rent-seeking activities in the Arab governments' external policies is paralleled by rent seeking within society domestically, where the top goal is to be granted resources in exchange for loyalty and good behaviour: rent seeking is the rule rather than the exception, dominating the economies as a whole as well as microeconomic rationality. Social interaction and decision making in all fields of politics are determined by highly elaborate networks of patrons and clients, by rent seeking, by informal group structures and neopatrimonialism.[15]

This is the context in which 'wasta' works: 'wasta', the Arab term for 'intercession' or 'inter-mediation', means personalistic networks with the purpose of mutual benefits; it is the social mechanism which determines allocative political decisions in society and economy—the question of 'who gets what'. Wasta is to be seen as the 'lubricant of the patronage system'[16] and as 'the societal norm'.[17] Rather than labour, personal capability or merit, it is the personal contact to political decision makers able to allocate resources (and thus build up clientelist networks) which secures social status and material well-being for the individual. It is noteworthy here that 'material well-being' does not only imply the successful pursuit of material benefits, but also embraces non-material favours which are expected to result in social or material enhancement (jobs, positions, licences, access to information, etc.). The result is a reversal of the genuinely capitalist (in a Weberian sense) relations between labour and productivity, on the one hand, and reward or profit, on the other. Since material gains and rewards are more likely to be achieved by loyalty and personal contacts or friendship than by productivity, rational microeconomic behaviour *does* include the principle of maximising gains as is assumed in classical economics, but gains are not necessarily, and not even primarily, realised through successful competition in an open market.[18]

Competition has been described as the guiding principle of market economies by proponents of classical economics, ranking above all other aspects of a market economy in importance.[19] Indeed, competition *does* take place, but in the *diwans* of public administration for the establishment of personalist ties, rather than in the marketplace. Yet competition as an *economic* principle determining market shares is for the most part either ineffective or not existent. Even where economic legislation has good prospects of becoming more liberal, we cannot today speak of market economies in the Arab countries, because that term by definition includes competition and the rule of law at its very heart.[20]

Highly distorted markets, the virtual absence of the rule of law in many cases and various respects (economic as well as political), and what is perceived as a 'lack of efficiency' in the Arab economies are the results.[21] It remains doubtful, however, if 'lack of efficiency' is an adequate term in this context. For an entrepreneur, operating in a system where productivity is largely disconnected from gains, it might just be more 'efficient' to 'invest socially' in personal contacts to decision makers than to strive for technical progress or increased productivity in his firm. Thus *efficiency* as a category is not ruled out, but its content differs profoundly from its 'Western' meaning.[22] Investing time and/or other resources in establishing the right connections is crucial, and in many cases even more vital to run a business profitably than market analyses or feasibility studies. It is the actor who enjoys the best connections to the state bureaucracy who will succeed in establishing and operating an enterprise, rather than the entrepreneur with the best concept or strategy. For those either without or with too weakly established relations, the frustrating struggles for licences, or the threat of a competitor who is better positioned politically, are de-motivating, time-taking obstacles in the way of economic activities and often cause the cancellation of projects altogether. Thus in the Arab states, what is often called 'red tape' is primarily a sociopolitical issue with immense political and material interests at stake, and not a purely administrative 'problem'.[23] It has at its basis social norms which, indirectly, have been fostered by the wealth of the oil era.

In the EU's Arab partner states, access to the market for newcomers, access to information on market conditions, competition based on innovation or productivity and the rule of law are therefore limited or ruled out for sociopolitical reasons. Even though these characteristics can hardly be formalised and quantified, it is evident that they greatly elevate transaction costs, create overall welfare losses and render the performance of the economies concerned incompatible with global market exigencies. Hence, the socially dominant patterns of patronage, rent seeking and 'wasta' seriously undermine the ability of the Arab countries to become more attractive places for FDI, adjust to international markets and face the challenges of globalisation: they are in effect *the* major obstacle to sustainable development. These sociopolitical features are in part a heritage of the oil-boom of the 1970s and early 1980s, but still determine to a large extent the performance of the Arab economies even today.

Liberal policy reforms and the performance of the Arab economies[24]

Some of the economic structures of political 'petrolism' and rentierism have been eroding in the 1990s. The recovery of oil prices in 1999 notwithstanding, OPEC's power to influence prices has dramatically decreased since the early 1970s.[25] Thus, economic rents are decreasing structurally; official transfers, too, are—over time—losing in relative importance when compared to private international capital flows.[26] As a consequence, the amount of the Arab states' income stemming from external capital (rents and equivalents) is decreasing, as is their allocative leeway domestically.[27] Because of falling exogenous revenues on which they heavily depended, all Arab states in the Middle East have experienced foreign exchange crises which developed into serious fiscal crises.[28] They were forced—rather than convinced of the necessity—to implement economic liberalisation measures, mostly 'IMF-style' stabilisation programmes. Thus all the Mediterranean Arab states today find themselves in a transitional period, their systems being transformed from state-led economies to an uncertain 'something else'.[29]

Yet the prevailing patterns of sociopolitical interaction cannot be changed as easily as can economic policies.[30] Rent seeking as a predominant social phenomenon in the Arab world has even been termed a 'mentality'[31] and, whether one agrees or not, 'wasta' and rent seeking are today still adequately described as societal norms, with processes of economic liberalisation not having had any significant or even noticeable influence on them. With a tradition of several decades, patronage and neopatrimonialism still structurally shape political rule as well as social structures and economic interaction in the Arab partner states. After roughly one decade of experience with liberalisation, it seems highly unlikely that any transition of the Arab systems into market economies is possible by a mere shift in economic policies. Even privatisation, which has until now been the politically most sensitive issue in liberalising Arab countries and has been implemented most reluctantly, is unlikely to overcome family-based social values which forestall the evolution of a merit-based system of norms.

> Even though a market may appear free, regulatory interference may so limit access that the market is controlled. Tariffs, trading agreements, import and export licenses, subsidies, export taxes—and their implementation—all work together to distort the marketplace by giving advantages to some producers or sellers over others, which increases the likelihood of resulting monopoly conditions. Privatisation assumes equitable implementation of the laws. However, the argument is that implementation of any rule or regulation is subject to wasta intercession ... The primary problem is not public versus private. The primary problem is excessive intercessory wasta, which distorts costs. Privatisation neither eliminates wasta nor, in the absence of other supportive factors, leads to development.[32]

Economic policy regulations, even if modified in the frame of liberalisation, are still handled by governments as powerful tools of political control over economic agents and interactions to maintain the political and economic hegemony of the ruling elites and their clientele.

To be sure: IMF-supported stabilisation programmes and adjustment programmes under the auspices of the World Bank which most of the Arab partner states have embarked on *did* prove successful during the first half of the 1990s, as the positive development of the macroeconomic indicators of the states concerned clearly shows.[33] Yet renewed stagnation and in some cases even recession in the second half of the 1990s indicates the temporary nature of this success.

As long as the structural contradiction between social norms and values fostered in rent-dependent economies and the most fundamental preconditions of market orders remain in place, market orders will not take hold in most Arab systems. Public sectors practise employment policies rather than primarily being producers and hold monopolies in strategic sectors of the economies; competition in the private sector cannot be established where personal ties determine access to the market; privatisation often leads to the emergence of new, private (quasi-)monopolies and thus contradicts the very idea of a market economy, leading even to new sources of rents; hardly any market is open for the entry of new competitors; and the information necessary for market assessment is not freely accessible but, just like material goods, is monopolised by the 'allocation state' or powerful individuals with close ties to the state (such as the heads of business organisations) and is distributed primarily on the basis of personal contacts to a privileged and loyal clientele.

Therefore, a shift in economic policies, from import-substitution to export-led growth and the liberalisation of trade and markets, will not in itself lead to significantly lower transaction costs or increased factor productivity. Also, institutional change alone will hardly alter the situation, since new or re-organised institutions face an essentially unchanged society adhering to the same values and practising similar patterns of interaction as before. As the experience of developmental policies in the past has shown, new institutions are quickly penetrated by informal rent-seeking activities, 'wasta' intercession and neopatrimonial rule in a way that may enable them to survive as a façade, but not fulfil the functions Western policy makers expect of them.

The Euro–Mediterranean partnership: main goals and implementation strategies

How does the above analysis relate to the issue of the Euro-Mediterranean Partnership Initiative? Since the 'Euro–Med' partnership represents an intervening variable in the developmental course of the Mediterranean Arab partners, the most important questions to ask are: how does this strategy affect the Arab partner countries and is it an adequate means to achieve the policy goals as declared by the participating states?

The Barcelona process is centred around three issue areas, or 'baskets': (I) political and security cooperation, (II) economic and financial cooperation, and (III) social, cultural and human cooperation, all of which are supposed to contribute to achieving the overall goals of 'peace, stability, and prosperity' in the Mediterranean basin.[34] These are meant to be reached by establishing bilateral Euro–Mediterranean Association Agreements (EMAAs) between the EU and each of the partners, strengthened by a regional component designed to support horizontal projects and programmes. Financially, the partnership is supported with over eight billion ECU from the common budget (grants) as well as from the European Investment Bank (EIB-loans) for the period from 1995 to 1999; similar levels of annual commitments were approved in 1999 for a second phase (MEDA-II) from 2000 to 2006.[35]

The first basket concerns the establishment of a political and security partnership. Respect for human rights and democratic norms, societal pluralism, territorial integrity, peaceful conflict resolution and a common stand against terrorism are its main components. Additionally, a letter of intent for the non-proliferation of nuclear, chemical and biological weapons on an international and regional level is part of that basket. Until today, this basket represents 'little more than lip-service to democracy and the rule of law, and it still contains only few concrete steps towards a political implementation of the goals set'.[36] This is not surprising since basket (I) constitutes a new component in Euro–Mediterranean relations. Obviously, the evolution and implementation of confidence-building measures take time and constitute long-term objectives, the success of which can hardly be assessed in any serious way as yet. I therefore concentrate on baskets II and III in the following analysis.

Apart from regional cooperation (an area where relatively limited funds are allocated), the partners, in cooperation with the local delegation of the European Commission, draft National Indicative Programmes (NIPs) outlining their own developmental and sectoral priorities in accordance with the objectives of the Euro–Mediterranean Partnership. The European Commission then commits its resources mainly bilaterally (90 per cent of the funds), roughly three quarters of which are being allocated under the umbrella of the 'MEDA Programme', the principal financial instrument for implementation.[37] As such, the MEDA Regulation falls into basket (II) of the 'Euro–Med' (economic and financial cooperation). The regulation mainly provides for the following types of measures:

- structural adjustment facilities;
- economic transition and private sector development;
- loans for risk capital operations in the production and infrastructure sectors;
- social sector and social service improvements to cushion the immediate negative impacts of economic transition.[38]

All these aspects of the second basket are aimed to pave the way toward the long-term goal of a Euro–Mediterranean free trade zone for industrial goods between the EU and its Mediterranean partners by 2010, which is the main objective of the economic and financial cooperation basket.

This seems to be the most important practical policy objective of the partnership. The creation of a free trade zone is regarded as a means to enhance or even create sustainable growth, attract more FDI and thus achieve sustainable development. Additionally, a social component seemed necessary to avoid possible political instability caused by negative impacts resulting from liberal economic reforms. It should be noted here that it is less poverty eradication as an objective in its own right, but rather the cushioning of adverse social effects which liberal reforms invariably bring about which is the aim, a second-order issue to ensure the success of economic transformation.

Social, cultural and human cooperation is the content of the third basket.[39] It comprises a 'positive' part, including the so-called MED programmes as well as the newly introduced MEDA-Democracy programme, and a 'negative' part which addresses issues such as drug trafficking, illegal migration, organised crime and terrorism. While all partners share a vital interest in cooperation in the 'negative' part, the promotion of the MED programmes as well as MEDA-Democracy is a strategy favoured mainly by the European Parliament. Within the frame of the MED programmes, the European Commission can choose partners from the Southern countries' civil societies without prior consultation of the respective central governments—an extremely sensitive issue, bearing in mind that there are no Arab democracies. An even more sensitive issue for authoritarian rulers is MEDA-Democracy, which grants 'subsidies to non-profit-making associations, universities, centres of research and to public bodies to implement projects which aim to promote democracy, the rule of law, freedom of expression, of meeting and of association, to protect target groups and to increase the awareness of socioeconomic rights'.[40] The aim is clearly to have segments of the civil societies of the southern Mediterranean states participate in the partnership, thereby contributing to 'democratisation from below'.[41] The problem with this normative goal is that only non-governmental organisations (NGOs) which enjoy legal status in their home countries can be partners in these 'decentralised' programmes. Therefore, an inclusion of civil society elements takes place only in so far as the partner states' governments allow for it, although, formally, it is the EU which selects non-governmental partner institutions in these programmes.[42] Generally, it can be pointed out that Arab NGOs often turn out, upon closer inspection, to be really government-led or government-intruded organisations. Organisations which are independent of the state on every level hardly exist in the Arab world.[43] Thus basket (III) presents a somewhat ambiguous picture, with one area where cooperation is a common interest and a second field where the Arab governments can at best take a very limited interest in cooperation for fear that it would be synonymous with the loss of political control.[44]

Analysing the implementation of the Barcelona process, it becomes clear that the largest emphasis by far has been placed on basket (II). Most of the funds allocated under the MEDA Regulation are allotted to structural adjustment programmes (SAPs) and support for economic transition.[45] In sharp contrast to the amounts of capital granted for economic transition, the funds for MEDA-Democracy committed up to April 1999 account for *c.* 0.6 per cent of the total resources the EU committed for the MEDA-I period (1995–9).[46] Considering the unequal distribution of funds between the different baskets, policy priorities are evident: the EU attributes top priority to the economic reform processes in its partner states, while the political component remains of marginal importance. The EU's economic strategies in the Mediterranean, however, largely resemble those pursued by the international financial institutions since the 1980s: liberalising markets and foreign trade, strengthening private sector development, deregulating capital markets, reforming tax systems, dismantling large parts of the loss-making public sectors and abolishing restrictive foreign currency regulations. By doing so, it is hoped that the EU can play an active role in laying the foundations for an increase of efficiency and productivity in the Southern partners' economies, thereby increasing their attractiveness to FDI and in the end their prospects for sustainable development.

This approach is consistent with, for example, that of the World Bank, which published its *Choosing Prosperity in the Middle East and North Africa* in the year of the Barcelona conference.[47] This title sounds as if choosing prosperity instead of poverty was similar to a choice between tea or coffee. Obviously it is not, and therefore it is imperative to compare the EU policy goals to the adequacy of the strategies implemented to achieve them. 'Peace, stability and prosperity' are the big catchwords. However, 'prosperity' can be translated into 'sustainable growth and economic development', whereas the pursuit of democratisation and the rule of law as outlined above are clearly subordinated to stability as the higher-ranking goal. The implication is that 'stability' for *Europe* (the containment of fundamentalism, terrorism and illegal migration) can be achieved through 'prosperity' in the partner states. Also, political stability in the *Arab states* is likely to remain high as long as the regimes have resources enough to live up to the inherited expectations of rent-seeking societies. Thus prosperity could be considered a prerequisite of stability within the European strategy. The decisive question is therefore: can the Barcelona process help in 'choosing prosperity'? Clearly, the EU cannot for various reasons finance the perpetuation of authoritarian regimes in the Arab partner states; hence, 'prosperity' must be achieved differently. Leaving all other factors aside (that is, my earlier arguments about sociopolitical norms), *economically* it remains an open question if a liberal EU strategy can succeed in creating welfare benefits in the Arab countries.

An early World Bank study[48] predicted enormous benefits for the southern Mediterranean partners from free trade with the EU, and another team of economists reached similar conclusions.[49] By contrast, more recent studies by IMF experts judge that the feasibility of the EU's Mediterranean approach remains subject to various 'pre-conditions';[50] one author even calls it a 'gamble' from the viewpoint of the Arab partner states, noting that 'the benefits of the agreements could be substantial, but they are uncertain, will come relatively late, and will be forthcoming only if major supplementary reforms are implemented consistently and early on'.[51] Additionally, so-called 'hub-and-spoke effects', resulting from a constellation of bilateral free trade, but with protection among the 'spokes' (i.e. the partner states), remain a risk which may result not in higher levels of FDI but in their decrease.[52] This leads to the question of regional integration among the Southern partner states, a point of debate within the region as well as within the EU.[53] Considering this, it cannot be assumed that there will be significant net welfare gains for the southern Mediterranean countries from bilateral Euro–Mediterranean free trade.[54] Rather, the EMAA seems to reflect a strong European interest in their partners' opening of markets to EU manufactured exports.[55]

All the other EU efforts in respect of the economic and financial cooperation to be promoted of basket (II)—apart from the free trade agreement(s)—similarly do not differ significantly from the past strategy of the Bretton Woods institutions, and there is no reason to believe that the EU will face less resentment on the part of the Arab governments or act more successfully than other international institutions have done. A view on IMF and World Bank reform strategies in general may illuminate the problem. The World Bank changed its way of implementing SAPs in the mid 1990s, mainly back in the direction of integrated approaches via the encouragement of sectoral investment programmes (SIPs), an approach which is now re-emerging in the EU's MEDA programme. While it seems likely that the SIPs will suffer from problems similar to those of earlier *dirigiste* strategies, 'the expectations aroused by the SAPs, at least in major areas (particularly the acceleration of economic growth) were frequently not fulfilled ... The deficiencies lie mainly in the under-estimation of the problems of political-economic implementation ... the decisive factor is the political will in the developing countries'.[56] If this latter factor is lacking, the EU's recent and current strategy is bound to fail economically *and* politically.

The IMF study referred to earlier summarised some of the prerequisites needed for the 'Euro–Med' partnerships to be successful economically. Among the key points were 'substantial further transformation of these societies ... a newly defined role for the government ... and deep changes in judicial and administrative practices'[57]—all statements which parallel my earlier findings grounded in a political analysis. Both indicate that the sociopolitical environment necessarily has to be addressed if liberal economic policy reforms are to have any chance of success. With this in mind, we now return to the Arab countries in order to examine the impact of the European policies on their specific socioeconomic environment.

The first dilemma: the Arab side

The fundamental problem to be addressed here is that the policy goals of sustainable, socially balanced economic development and democratisation contradict the vested interests of the ruling elites of the Arab partners. Yet economic liberalisation has spurred social dynamics exacerbating the negative impact of prevailing sociopolitical structures on economic performance. Unlike the latent antagonism between private business and the state, which has prevailed in most of the Arab partner countries from the 1950s/60s until the mid 1980s, since then we notice a growing amalgamation of the upper strata of bureaucrats and businessmen. In the course of liberalisation, new business opportunities were created for a number of entrepreneurs, because the states, lacking exogenous resources, came to depend on a more active private sector which would contribute a larger share to GDP. In all Arab countries, liberalisation was implemented in a highly selective manner, which allowed private *de facto* monopolies to emerge. Attracted by prospects of quick profits, more and more bureaucrats and regime members established private businesses; today, families of the heads of state, the upper strata of bureaucracy and governmental institutions, leaders of the ruling parties and the top ranks of the military establishment and security services all run their private enterprises.[58] In still protected, or rather distorted, markets, 'get-rich-quick' schemes of private profit-making seemed the best means to maintain economic power in the light of necessary policy changes which forbade the state bourgeoisies to continue to make private use of public surpluses generated by the influx of rents and rent-equivalents. What took place was, first, a convergence of interests between political and private economic elites and, secondly and increasingly, an amalgamation of the two formerly opposed groups.[59] While bureaucrats established private firms, private business elites partially, yet increasingly, have made use of their growing influence in political decision making, thereby enhancing their personal interests at the expense of those social groups not favoured by economic liberalisation. These structural social changes should not be confused with the 'regular' transitional costs of structural adjustment programmes.

The seemingly arbitrary application of business laws in many Arab countries *de facto* favours the ruling elites and their clients. Informal groups of members of the political and private economic centres of power in fact dominate the economies and benefit most from liberalisation. Small and medium-sized enterprises, however, which could be the motor of sustainable development, continue to suffer from bureaucratic interference in the market. The poor majority of the Arab populations bears most of the costs of structural adjustment; the loss of jobs, the removal of food subsidies and other consequences of economic reforms hit these groups most. The regimes might therefore now face the political risks of social unrest and violence more strongly than in the past. Militant islamist groups able to deliver social services may gain more support as the state provides less for its citizens' social security.

But the most important aspect of the changing social dynamics between political and economic elites, which at the same time represents the most difficult problem in the context of the 'Euro–Med' partnerships, is this: the very same decision makers that implement economic liberalisation can be assumed, for the most part, not to have any interest in increased competition or a more equitable application of laws. Indeed, it is rational for them to seek to perpetuate their economic power, and they will do so most likely by making use of the traditional ways of social interaction, i.e. by maintaining close networks of patronage and by extending 'wasta' to those who loyally support them. Simultaneously, however, representatives of this new politico-economic oligarchy are Europe's partners in negotiating 'prosperity'. Obviously, there is a dilemma here which as yet has not been seriously addressed by EU policy makers. The social norms of clientelism and neopatrimonial patterns of interaction will most likely prevail much 'longer than the transitional period'.[60] With these remaining in place, a transformation of the Arab systems into market economies cannot take place.[61] The 'Euro–Med' style of liberalisation is unlikely to alter the current non-democratic power structures. It may even contribute to a deepened neopatrimonialism and to the future preclusion of competition in both the political and the economic spheres. In sum: the EU's Mediterranean strategy is not an adequate instrument for achieving the policy goals declared in Barcelona.

The second dilemma: the European side

An even more delicate question concerns European policy priorities. I have argued here that the economic policy the EU pursues in its regional approach towards the Mediterranean basin has neither had the desired effect nor is likely to do so in the future for reasons which largely lie in the neglect of key Arab sociopolitical structures. It may be that the inadequacy of the strategies implemented in relation to basket (II) for achieving the goal of sustainable growth can be dismissed as planning errors, maybe caused by a lack of comprehensive analyses on the basis of which improved strategies could be elaborated. Also, there are obvious difficulties in communication and institutional deficiencies among the EU governing bodies themselves.[62]

But, for all that, why is the political and social dimension given so little attention, compared to the neoliberal economic approach? And why has no tangible progress been made to date in strengthening civil societies and tackling democratisation in the Arab partner states when both democratisation and stability are among the explicitly declared policy objectives? The expenditure figures given earlier indicate a clear hierarchy of goals: obviously, the strive for 'stability' has priority over democracy for the EU in its Mediterranean policy. As such, that may be regrettable from a normative view point, but it is understandable. The European approach, as is often argued, is designed to support evolutionary change, rather than risk rapid and uncontrolled political ruptures leading to instability or even civil war, as was the case in Algeria. In this case, the EMPI would have—at least temporarily—attained precisely the opposite of its intended goals: political instability or the rise of fundamentalist currents which might legitimately win democratic elections could increase incentives to illegal immigration, would worsen the investment climate in the southern Mediterranean countries and, as such, would be a threat to the partnership altogether.

What is less understandable is the implicit contradiction between the political (I) and social (III) basket, on the one hand, and the economic basket (II), on the other, which constitutes the second dilemma that the EU's regional economic approach faces. Companies active in foreign trade and those enterprises which manage to adjust to the new conditions of liberalised markets, either by means of rationalisation or by the establishment of new production sites, are the two groups of agents benefiting most from free trade and liberalisation. As for the exporters, they are certainly not the small and medium-sized enterprises, and the second group is also likely to be composed mainly of those entrepreneurs who have in the past been able to accumulate enough resources—via their cooption by the state apparatus—to survive the transitional process. Therefore, the main beneficiaries of the liberalisation strategy will most likely be the established authoritarian elites, whether in the private or the public sector. Among all social groups in the Arab partner states, these beneficiaries of the EU's economic policy are precisely the ones who share the least interest in strengthening civil society and thus sustaining potential opposition to the established regimes.

In short, the European economic policy (basket II) in the Arab Mediterranean countries will not only leave the economic structures of power essentially unaltered, but may even actively contribute to forestalling the evolution of participatory civil societies as well as political liberalisation, let alone democratisation. It thus contributes to the perpetuation of authoritarianism, whereas democratisation and the strengthening of civil societies are the declared policy goals of baskets (I) and (III).[63] The only possible conclusion which can be reached is that there are major inconsistencies within the Euro–Mediterranean Partnership Initiative. In fact, it seems as if one should rather speak of several policies which not only do not mutually reinforce and support each other, but which are characterised by grave inherent contradictions.

Concluding reflections

The question remains as to whether the goals made public in EU statements and official documents really reflect European interests or whether, for example, Europe might be competing with the hegemonic US presence in the region in the issue area of developmental policies as a means to gain privileged access to potentially huge export markets. This would hint at the pursuit of economic advantage over competitors, rather than support for sustainable development in the Southern partner states as the dominant policy consideration. Strikingly, with such an assumption as a basic hypothesis, the EMPI's implementation as a whole would seem much more coherent than it does in this analysis.[64] But such suggestions cannot be verified here; therefore, the reflections below assume that the officially declared policy objectives are in fact intended. The point is that from the effort to forge a closer cooperation between the EU and its Mediterranean partners emanate new and more complex problems than in the past, which cannot be overcome by establishing free trade only. The EU's Mediterranean policy needs to be thoroughly revisited. The question is: in what way?

The existence of fundamental dilemmas within the policies of both the EU and the Arab partner states makes it extremely difficult to find a *common* approach which could be agreed upon by both sides in order to achieve the declared policy goals. Yet the analysis presented here helps to distinguish possible from impossible avenues of future cooperation. Any commonly agreed upon strategy will have to pay respect to the interests of both the Arab governments and the EU. What has been revealed here is that an equitable application of laws and guaranteed fundamental freedoms are not only a normative European desire, but also one of the conditions for deeper integration and sustainable development. The 'transitional costs' of democratisation may of course be as high as those of economic transformation, as has been pointed out above, but they are not invariably so. Somewhat pointedly, one could speak of the 'developmental potential of democratisation'. Therefore, it seems desirable for the EU to evaluate possibilities of a transformation of the sociopolitical environment in the Mediterranean Arab states while maintaining a revised economic component. A starting point could be the introduction of a second political conditionality: tying funds not only to economic policy formulation and performance (as the IMF and the World Bank and, to a lesser extent, the EU have successfully done in the past), but also to sociopolitical criteria.[65] However, the problem with such an approach is that it will be resisted strongly by the non-democratic Arab governments, even though the EU does have means at hand to introduce *political* conditions for the continuation or suspension of aid flows.[66] In other words, the EU's main concern in dealing with its Mediterranean Arab partners must be (a) to circumvent the system of patrimonialism and the 'wasta' mechanism, thereby not strengthening the elites in power and (b) to allocate funds to those in need, rather than in favour of the current politico-economic elites.

On the other hand, the Arab governments' strategy must be to limit conditionality as much as possible, be it economic or political in nature. If this becomes increasingly difficult or impossible, economic conditionality is preferred to political because it does not directly influence the scope of political control, bearing in mind that no Arab government today can be categorised as democratic. Furthermore, it is in the interest of the Arab regimes that concrete programmes or projects are perceived by the population at large and by the beneficiaries as 'their own' projects in order to maximise the legitimacy-creating impression of themselves as distributor of rewards and resources.[67] However, the Arab governments must also be careful not to endanger the offered capital flows altogether.

Knowing that any sustainable improvement of the Arab economies' performance and their adjustment to global competition cannot succeed without a profoundly changed sociopolitical environment, and taking into account the Southern partners' resentment of direct political conditionality, one possible way of re-directing the EMPI would be to design new criteria for eligibility for programmes and implementation. This would necessarily involve a revision of the current prioritisation of the EU's policy objectives to be reflected in the level of funds committed and disbursed. It could also involve EU pressure on the Arab central governments to revisit their national priorities in order to give a greater role to non-governmental beneficiaries likely to contribute to greater pluralism and democratic debate (for instance, independent media). It could also mean that, on a bilateral level, a certain percentage of funds per programme or time unit would have to be made available to non-governmental bodies instead of governmental or semi-governmental institutions. Finally, it could involve a shift in the addressed target groups so as to give more support to the underprivileged strata of society, who are bound to be net losers in the course of economic liberalisation, and less to the entrenched politico-economic elites.

These reflections suggest the strengthening of the social component within the EMPI: Arab governments must have a vital interest in establishing and strengthening social security systems; if they fail to do so, the costs of an increasingly inequitable distribution of wealth, exacerbated by the adverse social effects of economic transformation, may well threaten the rule of deeply entrenched regimes. They might face a loss of political legitimacy as 'allocation states' which their populations have perceived them to be in the past. Undoubtedly, the masses will blame the negative 'side-effects' of structural adjustment on the regime—if not on the EU! Social unrest and violence would in turn threaten political stability, be counterproductive to the political aims of the regimes themselves and, finally, constitute a threat to local elites' political rule. For its part, the EU would, while avoiding the impression of political interference, be able to fill the up-to-now rather empty social and human 'basket' of its Mediterranean policies with some significant content which would, to some degree, relieve it from the pressure of justifying its strong concentration on the purely technical-economic aspects of the 'Euro–Med'. At the same time, such a strategy would be a necessary (although not sufficient) condition for the economic basket to bear its expected fruits, since it is commonly recognised that strong social safety nets are essential to ensure the success of transitional processes in developing countries. Such an approach could also serve as a means to start implementing *some* sort of political conditionality which does not demand outright democratisation, but nevertheless introduces a first element of decentralisation and closer monitoring. Local and possibly non-governmental institutions for poverty alleviation, especially in rural areas, should be strengthened. Their operations and the implementation of their programmes could be relatively easily monitored by the EU, their functioning according to the rule of law—and not according to mechanisms of 'wasta' and patronage—being a condition, for example, for the granting of aid and resources in other issue areas. To be fair, some measures in this direction have already been taken and programmes such as the externally financed 'Social Fund for Development' in Egypt have been established.[68] In practice, however, the operation of such institutions is still highly problematic[69] and the distribution of resources, following well-known patterns of clientelism, more often than not does not match the expectations of donors.

The suggested way of re-directing the EMPI is no medicine to cure the structural weakness of Arab economic performance, nor can it solve the problem of an inconsistent and contradictory European policy approach. But it would be a first and manageable step towards preventing the failure of the Euro–Mediterranean Partnership.

Notes

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1. In Barcelona, the ministers of foreign affairs of the fifteen EU member states as well as their counterparts from the southern Mediterranean held the first European–Mediterranean conference, the so-called 'Barcelona Declaration' being the final document agreed upon by all participating governments. These comprise: the Maghreb states (Algeria, Morocco, Tunisia); Cyprus, Malta and Turkey as three non-Arab partners; and the Mashriq region (Egypt, Israel, Jordan, Lebanon, the Palestinian Authority (PA) and Syria). The only state bordering the Mediterranean not included in the 'Euro–Med' programmes of the Union, but with an observer-status, is Libya. For practical reasons, the term 'Arab partner states' shall be extended here to include the PA; thereby, the author does not intend to imply any position on the question of Palestinian statehood. In accordance with recent literature on the subject, the term 'southern Mediterranean' is used not geographically, but politically to include all those states and entities participating in the Barcelona process.
2. I concentrate here on the Arab states only. The reason is that they share, in spite of their heterogeneity, key economic and sociopolitical characteristics which make them comparable; at the same time, these distinguish their economic structures, political systems and societies from other partner states such as Israel or Cyprus.

3. World Bank, *World Development Report 1998/99* (Oxford University Press for the World Bank, 1999), pp. 264–5.
4. Algeria stands out because it has much more natural resources than all other participants in the EMPI. It is the world's third largest exporter of natural gas and it produced, in 1998, over 1.5 million barrels of oil per day; this is more than all other Arab participants in the 'Euro–Med' produce together. See US Energy Information Administration (EIA), *Country Abstract Brief Algeria (February 1999)* at www.eia doe.gov/emeu/cabs/algeria.html, p. 7.
5. The term has first been introduced by Bahgat Korany, 'Political Petrolism and Contemporary Arab Politics', *Journal of Asian and African Studies*, Vol. 21 (1986), pp. 66–80.
6. An overview and critical analysis of rent seeking as an analytical concept in economics is presented by Martin Ricketts in 'Rent-Seeking, Entrepreneurship, Subjectivism, and Property Rights', *Journal of Institutional and Theoretical Economics*, No. 143 (1987), pp. 457–66. For the political economy side of the concept in a macroeconomic environment (governments themselves acting internationally as rent seekers) with the state domestically as a distributor of rents, see the contributions in: Hazem Beblawi & Giacomo Luciani (Eds), *The Rentier State* (Croom Helm, 1987) and, also for the Middle East, Alan Richards & John Waterbury, *A Political Economy of the Middle East*, 2nd edn (Westview, 1996), pp. 55–62.
7. See Hazem Beblawi, 'The rentier state in the Arab world', in: Beblawi & Luciani, *The Rentier State*, pp. 49–62, and Peter Pawelka & Claudia Schmid, 'The modern rentier state in the Middle East and its strategies of crisis management', paper presented at the 22nd Annual Meeting of the Middle East Studies Association (MESA), 2–5 November 1988, Los Angeles, CA.
8. The following cases serve as examples since there is no room for a detailed account. Thus, Egypt, for instance, receives an annual average of more than US$1b of US aid alone. For details and figures, see Dennis Sullivan, 'American Aid to Egypt, 1975–1996: Peace without Development', *Middle East Policy*, Vol. IV, No. 4 (1996), pp. 36–49. Another example is Jordan. Figures on that case can be found in Gil Feiler, 'Jordan's economy, 1970–1990: the primacy of exogeneous factors', in. Joseph Nevo & Ilan Pappé (Eds), *Jordan in the Middle East: The Making of a Pivotal State* (Cass, 1994), pp. 45–60. The Palestinian economy is largely (*de facto* over 50 per cent of the budget) dependent on the international donor community (cf. Martin Beck, 'Can Financial Aid Promote Regional Peace Agreements? The Case of the Arab–Israeli Conflict', *Mediterranean Politics*, Vol. 2, No. 2 (1997) pp. 49–70). Syria, on the other hand, had developed into a Soviet 'client'. See Volker Perthes, *The Political Economy of Syria under Asad* (I.B. Tauris, 1995). A recent calculation based on IMF staff reports and unpublished government statistics reveals that, even with declining oil prices, exogenous revenues accounted for more than 50 per cent of the Syrian budget throughout the 1990s. See Oliver Schlumberger, *The Politics of Economic Liberalisation in Syria*, unpublished MA dissertation, Institute of Political Science, University of Tübingen, Germany, 1998.
9. Cf. Giacomo Luciani, 'Allocation vs. production states: a theoretical framework', in: Beblawi & Luciani, *The Rentier State*, pp. 63–82, for a conceptualisation. Peter Pawelka, 'Die politische Ökonomie der Aussenpolitik im Vorderen Orient', *Orient*, Vol. 35, No. 3 (1994), pp. 369–90, concentrates explicitly on the Arab states' foreign policies as a means of acquiring international rent equivalents (or 'political rents').
10. This is why one author has characterised such states as 'allocation states' (in contrast to 'production states' as they prevail in the so-called First World). See Luciani, 'Allocation vs. production states', p. 63.
11. For elaboration of this point, see Nazih Ayubi. 'Arab bureaucracies: expanding size, changing roles', in: G. Luciani (Ed.), *The Arab State* (Routledge, 1990), pp. 129–49.
12. Bradley Glasser, 'External Capital and Political Liberalisations: A Typology of Middle Eastern Development in the 1980s and 1990s', *Journal of International Affairs*, Vol. 49, No. 1 (1995), p. 48.
13. Anne Krueger, 'The Political Economy of the Rent-Seeking Society', *The American Economic Review*, Vol. 64, No. 3 (1974), pp. 302–3.
14. Some might argue that the sociopolitical aspects to be briefly sketched here are the result of the economic structures of rentierism and 'petrolism', thus establishing a *causation* between them; others, mainly proponents of culturalist approaches, see the social aspects of patronage, clientelism, 'wasta' and rent seeking *a priori* as part of the political culture of the Arab world. To postulate causal links between an elevated portion of exogenous fiscal revenues and rent seeking as a socially dominant phenomenon seems plausible, but hard to formalise, given the difficulties in obtaining reliable empirical data in much of the Arab world. Yet, as several authors have shown in case studies, the development of 'rentier states' has at least reinforced patrimonialism within the political systems in the countries concerned. See, among others,

Yahya Sadowski, 'Ba'thist ethics and the spirit of state capitalism: patronage and the party in contemporary Syria', in: Peter Chelkowski & Robert Pranger (Eds), *Ideology and Power in the Middle East: Essays in Honor of George Lenczowski* (Duke University Press, 1988), pp. 160–84; Perthes, *The Political Economy of Syria*; Robert Bianchi, *Unruly Corporatism: Associational Life in Twentieth-Century Egypt* (Oxford University Press, 1990); Luciani, 'Allocation vs. production states' on various Arab states; Dirk Vandewalle, 'Islam in Algeria: religion, culture and opposition in a rentier state', in: John Esposito (Ed.), *Political Islam: Revolution, Radicalism, or Reform?* (Lynne Rienner, 1997), pp. 33–51, for the Algerian case; and Rex Brynen, 'Economic Crisis and Post-rentier Democratization in the Arab World: The Case of Jordan', *Canadian Journal of Political Science*, Vol. 25, No. 1 (1992), pp 69–97, for Jordan.

15. For the theoretical background of patronage, clientelism and patrimonialism, see Shmuel Eisenstadt, *Traditional Patrimonialism and Modern Neo-patrimonialism* (Sage, 1973); S. Eisenstadt & R. Lemarchand (Eds), *Political Clientelism, Patronage, and Development* (Sage, 1981); Ernest Gellner (Ed.), *Patrons and Clients in Mediterranean Societies* (Duckworth, 1977); and Max Weber, *Wirtschaft und Gesellschaft*, 3rd edn (Mohr, 1947). See James Bill & Robert Springborg, *Politics in the Middle East*, 4th edn (HarperCollins, 1994), ch. 3 and pp. 150–75 as a theoretical basis for Middle Eastern group structures and informality of decision-making processes.
16. Hisham Sharabi, *Neopatriarchy: A Theory of Distorted Change in Arab Society* (Oxford University Press, 1988), p. 45.
17. Robert Cunningham & Yassin Sarayrah, *Wasta: The Hidden Force in Middle Eastern Society* (Praeger, 1993), p. 36. This book includes a conceptualisation of 'wasta' as an analytical category. For 'wasta' as a possible obstacle to development, see Robert Cunningham & Yassin Sarayrah, 'Taming "Wasta" to Achieve Development', *Arab Studies Quarterly*, Vol. 16, No 3 (1994), pp. 29–41.
18. Cf. Sharabi, *Neopatriarchy*, ch. 4. A fascinating allusion to the discrepancy between these practices and Weberian 'Protestant Ethics' is Yahya Sadowski, 'Ba'thist ethics and the spirit of state capitalism'.
19. For constitutive principles of functioning competition-based market orders, see Walter Eucken, *Grundzüge der Wirtschaftspolitik*, 6th edn (Mohr, 1990), ch. 16
20. The fact that markets are imperfect wherever they exist does not contradict this argument. The qualitative difference between capitalist market economies in a 'Western', or 'Weberian' sense of the word and the Arab economies is that distortive factors are not an exception to the laws of the market, but that the latter are systematically ruled out in most Arab countries.
21. Of course, this is a generalisation which certainly has its exceptions. Yet there is no shadow of a doubt that distorted markets and a remarkably inequitable application of laws are among the most important characteristics of the Arab economies discussed here.
22. This semantic problem many Western observers face when analysing Middle Eastern economies may be one of the strongest indicators for the profoundly differing understanding between the two sides, the Arab world and the West, of how markets work and what they are.
23. This conclusion is underpinned by several series of interviews undertaken by the author with businessmen from Syria, Lebanon, Jordan and Egypt during the last few years. Interestingly enough, even successful entrepreneurs with close ties to the respective regime leaderships admit the correctness of this conclusion in private conversation.
24. This section draws in part on Oliver Schlumberger, 'Socio-political obstacles to economic transformation in the Middle East: the Syrian case', paper presented at the fourth annual conference of the German Middle East Studies Association (DAVO), 4–6 December 1997, Hamburg, as well as on M. Beck & O. Schlumberger, 'Der Vordere Orient—ein entwicklungspolitischer Sonderfall? Rentenökonomie, Markt und wirtschaftliche Liberalisierung', in: P. Pawelka & H.-G. Wehling (Eds), *Der Vordere Orient an der Schwelle zum 21. Jahrhundert* (Westdeutscher Verlag, 1999), pp. 64–6.
25. For analyses and projections see, for example, US Energy Information Administration (EIA), *OPEC Revenues Fact Sheet (August 1999)* at www.eia.doe.gov/emeu/cabs/opecrev.html, pp. 1–3. This study shows that even after the projected recovery in 1999 (of c. 25 per cent compared to 1998), total export revenues for 1999 as a whole 'will remain lower than all but three of the previous 26 years' (p. 2). Inflation-adjusted oil export revenues (in constant 1990 US dollars) have fallen from their historical peak of US$439b in 1980 to a low of only US$80b in 1998, the lowest figure since 1973.
26. The share of official transfers has decreased world-wide, while private capital flows into developing countries have grown significantly from roughly one third of the overall capital flows in 1990 up to more than three quarters today, with direct investments accounting for roughly half of the private capital flows.

Cf. World Trade Organization (WTO), *World Investment Report* (WTO, 1999), and World Bank, *World Development Report 1998/99*, pp. 264–5.

27. This tendency is reinforced by the population explosion in the Arab countries which has strongly negative impacts on the availability of rents relative to demands.
28. For a typology of possible strategies of crisis management in rent-dependent states, see Pawelka & Schmid, 'The modern rentier state'.
29. Among the large body of literature on economic and/or political liberalisation in the Arab world since the late 1980s, the following edited books stand out due to the importance of their contribution to the current scholarly debate: Henri Barkey (Ed.), *The Politics of Economic Reform in the Middle East* (St. Martin's Press, 1992); Ilya Harik & David Sullivan (Eds), *Privatisation and Liberalisation in the Middle East* (Indiana University Press, 1992); Tim Niblock & Emma Murphy (Eds), *Economic and Political Liberalisation in the Middle East* (British Academic Press, 1993); Ghassan Salamé (Ed.), *Democracy without Democrats? The Renewal of Politics in the Muslim World* (I.B. Tauris, 1994); and Rex Brynen, Bahgat Korany & Paul Noble (Eds), *Political Liberalization and Democratization in the Arab World* (Westview, 1995); see also Alan Richards & John Waterbury, *A Political Economy of the Middle East*, 2nd edn (Westview, 1996), esp. chs 8 and 9.
30. Additionally, it must be taken into consideration that the influx of economic and political rents will not entirely stop in the future. Cf. Beck & Schlumberger, 'Der Vordere Orient', pp. 57–79, for details and a typology of the nature of exogenous revenues and their level in Middle Eastern states as an independent variable for the degree of economic liberalisation.
31. Beblawi, 'The rentier state in the Arab world', p. 52.
32. Cunningham & Sarayrah, *Wasta: The Hidden Force*, pp. 178–9.
33. See World Bank, *World Development Reports, 1991–1999* for figures on improved macroeconomic indicators.
34. I am referring here to the Barcelona Declaration, 28 November 1995, which has been published by the European Commission, Directorate General Ib, Brussels, 1996, as well as to the association accords between the EU and Morocco and Tunisia (documents COM(95)235 final and COM(95)740 final) of 1995. On the evolution of the new policies, see Bichara Khader, *Le Partenariat Euro-Méditerranéen après la conférence de Barcelone* (L'Harmattan, 1997), pp. 67–128. The formulation of the three mentioned issue areas follows a strategy of three 'baskets' which had first been adopted by the Conference on Security and Cooperation in Europe (CSCE).
35. It should be noted, however, that economic data collections on allocations under the umbrella of the EMPI can be quite misleading, considering the comparatively low actual disbursement rate of some 30 per cent only during the MEDA I phase. I am grateful to Richard Gillespie for drawing my attention to this point.
36. Annette Jünemann, 'Europas Mittelmeerpolitik im regionalen und globalen Wandel: Interessen und Zielkonflikte', in: Wulfdiether Zippel (Ed.), *Die Mittelmeerpolitik der EU* (Nomos, 1999), p. 51. This quotation clearly predates the recent progress reached in the formulation of a 'Security Charter' which had, at the time of writing, been in a draft stage and was likely to be approved in 2000. It is not clear today, however, if such a charter will have any significant impact on actual policies even in the long run.
37. The MEDA Regulation (Council Regulation (EC) No. 1488/96) is the main document determining economic and policy aims and was adopted in July 1996 for a first period of four years (1996–1999; also called 'MEDA I'); afterwards, MEDA II, the second phase of the programme which is scheduled for a seven-year period from 2000 to 2006, enters into force. The annual level of resources to be committed remains approximately the same as for MEDA I, which was endowed with 3,475 million ECU
38. Cf. also Euronet Consulting (Eds), *Evaluation of the MEDA Regulation—Final Report, Feb. 12th 1999* at www.euromed.net/MEDA/evaluation/MEDARegulation, 1999, p. 7.
39. For an introductory account, see Elena Peresso, 'Euro-Mediterranean Cultural Co-operation', *European Foreign Affairs Review*, Vol. 3 (1998), pp. 135–56.
40. European Commission, DG IB, Unit A. 1, *MEDA-Democracy. Euro-Mediterranean Partnership. Information Note No. 2, Sept. 1997* (also accessible at www euromed.net/information-notes/).
41. Cf. Jünemann, 'Europas Mittelmeerpolitik', p. 58.
42. Apart from NGOs in a strict sense, other semi-governmental organisations, such as universities, are also included in this strategy. Recent EU efforts to develop decentralised cooperation with the Arab Gulf states could be considered a related example, although these do not fall within the context of the EMPI.
43. This is due to the Arab governments' extremely high ability to control their societies. For this point, see Oliver Schlumberger, 'The Arab Middle East and the Question of Democratization: Some Critical

Remarks', *Democratization*, Vol. 7, No. 4 (2000). Concerning the implementation of MEDA Democracy, one may add here that it has also been negatively affected by internal problems within the European Commission during the past years, which have left hundreds of projects frozen for years.

44. This holds true not only for MEDA-Democracy, which has its own budget line, but also for all other MEDA funds: Article 1, Section 2 of the MEDA Regulation makes non-state actors and non-governmental organisations eligible for funding, thereby making clear the intention to involve the population at large of the recipient country.
45. The amounts that can be attributed to 'economic transition' in a wider sense include not only the SAP- and economic-transition-related funds, but also some of the resources figuring under the heading of 'support for socio-economic balance', such as a programme for the rehabilitation of the public service sector in Lebanon, which involves funding measures for the central and local governments. Cf. European Commission, DG IB, *Annual Report of the MEDA Programme 1998* [COM(1999)291 final of 22.6.1999], Brussels, p. 22 (also accessible at www.euromed.net). A recent evaluation of the MEDA Regulation criticises the linking of economic infrastructures to the category of 'support of a better socioeconomic balance' as 'incoherent'; cf. Euronet Consulting, *Evaluation of the MEDA Regulation*, p. 94. Calculated that way, a per-country average of more than 75 per cent of the bilateral MEDA funds are used for economic transition in a wider sense. Other measures include the improvement of mainly rural infrastructures and environmental projects, which account for the bulk of those funds figuring under the title of 'support for achieving a better socio-economic balance'. See *ibid.*, pp. 9–33.
46. Author's calculation based on figures given in: European Commission, DG IB/Unit A.2, *Euro-Mediterranean Partnership. Information Note: MEDA Democracy, April 1999*, and European Commission, DG IB/Unit A.4, *Euro-Mediterranean Partnership. Information Note: The MEDA Programme, April 1999*. Both are accessible at www.euromed.net/information-notes/.
47. World Bank, *Claiming the Future: Choosing Prosperity in the Middle East and North Africa* (World Bank, 1995).
48. *Ibid.*, p. 49.
49. T. Rutherford, E. Rutström & D. Tarr, 'Morocco's Free Trade Agreement with the EU: A Quantitative Assessment', *Economic Modelling*, Vol. 14 (1997), pp. 237–69. The problem with this study is that it presents the results of an analysis first published in 1993. The authors employ data in a general equilibrium model which in part date back as far as 1980. Furthermore, one wrong assumption on which the model is based is that of entirely free trade and not, as is the case with the EMAA, free trade *excluding* the agricultural sector where non-tariff barriers on the European side will remain in place. Thus the results of this article can hardly represent more than a highly speculatory prognosis. What is more, the World Bank study quoted above enthusiastically refers to the same authors (one of whom is a World Bank analyst) in order to underpin their recommendations and positive expectations of the impact of a Euro–Mediterranean free trade area.
50. Cf. Saleh Nsouli, Amer Bisat & Oussama Kanaan, 'The European Union's New Mediterranean Strategy', *Finance & Development*, Vol. 33 No. 3 (1996), pp. 15–16.
51. Henri Ghesquiere, *Impact of European Union Association Agreements on Mediterranean Countries*, IMF Working Paper, WP 98/1996 of August 1998, Washington, D.C., p. 22.
52. These effects can occur in a constellation of bilateral free trade between the 'hub' (EU) and the 'spokes' (partner economies), but protection amongst the 'spokes'. In this case, the incentive for investors is to produce in the centre to achieve access to the hub as well as to the spokes, instead of producing in one of the spokes and not accessing the others. Although the encouragement of intra-regional free trade is one of the demands of the Barcelona Declaration, in reality no steps have been taken by the partner states towards the creation of free trade among themselves. To date, no serious discussions among the southern Mediterranean government representatives, let alone negotiations, are in sight which would indicate the probability of such a development. For similarly sceptical assessments, see Francis Ghilès, 'La Méditerranée: un enjeu qui mérite une politique plus audacieuse', *Politique Étrangère*, No. 1 (1998), p. 76; and Volker Nienhaus, 'Euro–Mediterrane Freihandelszone: Intensivierung der Wirtschaftsbeziehungen und Förderung nachhaltiger Entwicklung?', in: Zippel, *Die Mittelmeerpolitik der EU*, pp. 100–1, who refers to the 'hub-and-spokes' problem.
53. It is beyond the scope of this article, however, to discuss questions of regional integration in detail. Some intelligent literature on this can be found in: G. Luciani & Ghassan Salamé (Eds), *The Politics of Arab Integration* (Croom Helm, 1988). See also Rodney Wilson, 'Middle Eastern trade and financial integration: lessons from the European Union's experience', in: Barbara Allen-Roberson (Ed.), *The Middle East and*

Europe: The Power Deficit (Routledge, 1998), pp. 184–205; Gerd Nonneman, 'Problems facing cooperation and integration attempts in the Middle East', in: Gerd Nonneman (Ed.), *The Middle East and Europe: The Search for Stability and Integration*, 2nd edn (Federal Trust for Education and Research, 1993), pp. 35–45; and Tim Niblock, 'The realms in which regional cooperation and integration could be fostered', in: *ibid.*, pp. 47–51.

54. Additionally, a number of intervening factors such as the introduction of the European Monetary Union (EMU), the Uruguay Round and the primacy of an Eastern enlargement of the European Union have all been analysed as negatively influencing the economic prospects of the EMPI as well as the general developmental prospects for the southern Mediterranean countries. For the impact of the EMU on the Arab states, see Jean-François Ruhashiyankiko, *The Euro and the Production Structure and Export Performance of Middle East and North African Countries*, IMF Working Paper WP/99/12, IMF, Washington, D.C., January 1999, p. 14 (also accessible at www.imf.org). For the impacts of the Eastern enlargement process and the Uruguay Round on the EMPI, cf. Alfred Tovias, 'The EU's Mediterranean Policies under Pressure', *Mediterranean Politics*, Vol. 2, No. 2 (1996), pp. 18–23.
55. For further discussions of the problems and chances of FTAs, see the recent special issue of *Mediterranean Politics*, Vol. 4 No. 2 (1999), edited by Jordi Bacaria and Alfred Tovias.
56. Egon Gorgens, 'IMF and World Bank Development Strategies—From Development Policy Dirigisme to Market Economy Principles—and Back?', *Economics*, Vol. 57 (1998), p. 128.
57. Ghesquiere, *Impact of European Union Association Agreements*, p. 22.
58. Again, this is a generalisation which holds true more for some countries than for others. Morocco, for instance, can hardly be said to have a ruling party, although there is no question that the Moroccan *Makhzan* system, too, is shaped by non-democratic elites—in spite of the process of liberalisation which Morocco has maybe pursued furthest among all Arab countries However, this must not be confused with the establishment of market systems in a Weberian sense, let alone with democratisation. For a fuller discussion of this distinction between political liberalisation and democratisation, see Schlumberger, 'The Arab Middle East and the Question of Democratisation'
59. From among the vast literature describing and analysing this trend, suffice it here to mention Perthes, *The Political Economy of Syria*, and the contributions in Eberhard Kienle, *Contemporary Syria: Liberalization between Cold War and Cold Peace* (British Academic Press, 1994) for the Syrian case, and Robert Springborg, *Mubarak's Egypt: Fragmentation of the Political Order* (Westview, 1989), chs 2–4, for the Egyptian case. The emergence of similar structures in the new Palestinian economy is hinted at by Beck, 'Can Financial Aid Promote Regional Peace?'. In the Arab monarchies such as Jordan or Morocco, intermingling business and state interests are a less new phenomenon, but have also been encouraged by economic liberalisation, and the imperfection of markets and access to them has evolved more clearly than before.
60. Eberhard Kienle, 'Libre-échange contre libéralisation politique partenariat et stabilité dans le bassin Méditerranéen?', *Politique Étrangère*, No. 1 (1998), p. 55
61. The rather naïve, but apparently still widespread, argument that economic liberalisation will inevitably trigger political liberalisation—let alone democratisation—is not only empirically wrong (see the cases of China, Malaysia or the recent experience of Arab countries such as Jordan or Tunisia), but also scientifically falsifiable. As an example among others, see Kienle, 'Libre-échange contre libéralisation politique', pp. 59–65, who discusses the arguments of both sides briefly, but very convincingly. In more theoretically oriented fashion, the case against such a causation is made in Schlumberger, 'The Arab Middle East and the Question of Democratisation'.
62. The EU is, of course, no homogeneous actor. In many policy areas, the southern member states' interests differ significantly from the northern members, and overlapping institutional responsibilities and competencies further complicate the formulation of coherent policies. For an approach concentrating on the intra-European difficulties in implementing the 'Euro-Med', see Jorg Monar, 'Institutional Constraints of the European Union's Mediterranean Policy', *Mediterranean Politics*, Vol. 3, No. 2 (1998), pp. 39–60.
63. See also Eberhard Kienle's contribution to this debate, which supports the argumentation presented here, in 'Destabilisation through Partnership? Euro–Mediterranean Relations after the Barcelona Declaration', *Mediterranean Politics*, Vol. 3, No. 2 (1998), pp 1–20.
64. Of course, such an hypothesis remains the subject of debate and scholars who advised me on this article were of entirely different opinions on this point. However, the World Bank's recent advice to Egypt (as a country representative for the EU's Arab Partner states) to negotiate its free-trade agreements comprehensively through participation in the WTO's Millennium Round, combined with its subtle critique

of the EMPI approach, could be interpreted as an indicator in favour of such an assumption. See World Bank, *World Development Report 1999/2000* (Oxford University Press, 1999), pp. 157 and 160.

65. This is one of the main arguments of Kienle, 'Libre-échange contre liberalisation politique', p. 65. It could be argued, however, that there are several partner states with which EMAAs are still to be concluded and that the EU, by introducing more demanding political conditions, might risk some of them never being concluded. This would certainly signify a failure of the EU's comprehensive approach which European decision makers are anxious to avoid.
66. Not only is the self-binding promise of the Arab partner states to advance with political reform and democratisation part of the Barcelona Declaration, but there is Article (3) of the MEDA Regulation which would—theoretically—allow the EU to suspend funds on political grounds. It reads as follows: 'this regulation is based on respect for democratic principles and the rule of law and also for human rights and fundamental freedoms, which constitute an essential element thereof, the violation of which element will justify the adoption of appropriate measures'.
67. This is actually happening, for instance in discussions between the delegations of the European Commission and the respective national governments. Thus 'the programmes / projects are still regarded as "Government-owned and -controlled programmes" ', according to Euronet Consulting, *Evaluation of the MEDA Regulation*, p. 105, where it is stressed that local governments are 'generally very keen on controlling activities for NGO beneficiaries, in particular for private sector beneficiaries'.
68. The EU has joined other donors (World Bank, USAID) to co-finance this fund with MEDA resources.
69. For an account of the experience with social development funds in other developing regions, see Margareta Kulessa, 'The Economic and Social Effects of Structural Adjustment Policy: Theory and Practice', *Economics*, Vol. 58 (1998), pp. 65–70.